GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

STARRED QUESTION NO:170
ANSWERED ON:02.08.2001
OIL POOL DEFICIT
SUKENDER REDDY GUTHA;Y.S. VIVEKANANDA REDDY

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) the present oil pool deficit;

(b) the reasons for increase in oil pool deficit and the corrective measures taken to check the deficit;

(c) whether his Ministry has urged the Ministry of Finance to reduce custom duty on crude oil and petroleum products to bring down oil pool deficit; and

(d) if so, the reaction of the Finance Ministry in this regard?

Answer

MINISTER OF PETROLEUM & NATURAL GAS (SHRI RAM NAIK)

(a) to (d): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (d) OF LOK SABHA STARRED QUESTION NO.170 FOR 2-8-2001

(a): The estimated oil pool deficit as on 31-3-2001, was around Rs.12,600 crore.

(b):The position of the Oil Pool Account depends upon the international prices of crude oil/petroleum products, variation in exchange rate, demand of petroleum products in the country, domestic selling prices of controlled petroleum products (motor spirit, high speed diesel, kerosene for public distribution and domestic LPG) etc.To contain the oil pool deficit, Government take various corrective measures which inter alia, include corrections in the consumer prices of petroleum products, adjustment in rates of duties, etc.

(c): Yes, Sir.

(d): No decision has been taken as yet.

BACKGROUND MATERIAL FOR RAJYA SABHA QUESTION ON OIL POOL DEFICIT TO BE ANSWERED ON 02/08/2001

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Administered Pricing Mechanism

1. Oil Pool Account is a means to implement the Administered Pricing Mechanism (APM) and is in operation since 1975. It is meant to be self-balancing over a period of time as the Government provides no budgetary support.

2. Currently, the main features of the APM are:

-– Consumer prices of certain products like petrol are fixed at a level higher than the import parity price.

-– Consumer prices of certain products like kerosene for public distribution and domestic LPG are fixed at levels lower than import parity price.

-– Selling prices for consumer are equalized up to all refinery locations in the country.

-– Refineries pay international prices for crude oil, including indigenous crude oil. Refineries get import parity prices for the controlled products sold to the marketing companies.

-– Government companies (ONGC, OIL) are paid a pre-decided percentage of the international crude oil prices for the indigenous crude instead of international prices.

3. Inflows into and Outflows from the Oil Pool Account

a) The major inflows into the Oil Pool Account are from:

-– Differential between the selling prices and the actual costs incurred on products like petrol, which are sold at prices higher than the import parity price.

-– Differential between the international price of crude oil and the price paid to Government companies (ONGC and OIL) for indigenous crude.

b) The major outflows from the Oil Pool Account are:

-– The differential between the costs incurred and the selling prices of subsidized products like kerosene for public distribution and domestic LPG, that are sold at prices lower than the import parity prices.

-– Freight costs for moving crude oil and products up to various refinery locations in the country.

-– Other costs which are not passed into the selling prices. These include certain irrecoverable taxes, un-recovered freight beyond refinery locations, etc.

Position of Oil Pool Account over past 10 years

1. From 1982-83 onwards the Oil Pool Account started generating surpluses. As a result, large deposits were made into Public Account of India by OCC. The balance of deposit in the Public Account payable to OCC as on 31/03/1989 reached a level of Rs.8,900 crore. However, from the year 1989-90 onwards, Oil Pool Account started showing deficit. During the years 1989-90 to 1992-93, OCC was allowed to withdraw a part of its deposit, amounting to Rs. 2,171 crore, from the Public Account.Further an amount of Rs.2,300 crore was appropriated from the deposits in the Public Account to the general revenues of the Government.The balance deposit of OCC in the Public Account from the year 1992-93 onwards stands at Rs. 4,429 crore.

2. Position of Oil Pool Account over last 10 years is given below.

Year
Cumulative Outstanding Claims of the Oil Companies/Govt. of India at the period end

Rs. crore

1989-90 1,798
1990-91 2,908

1991-92	5,095
1992-93	4,904
1993-94	5,050
1994-95	3,765
1995-96	5,701
1996-97	15,976
As on 30.06.1997	18,271
1997-98	14,156
1998-99	3,408
1999-2000	6,256
2000-2001 (Provisional)	12,600

3. Oil pool deficit at any given time represents outstanding amounts payable to oil companies by OCC. OCC`s failure to pay the outstandings adversely affects the liquidity of the oil companies which are then required to borrow substantial sums from the financial institutions to maintain the product supply line.

4. In June 1997, the oil pool deficit reached a level of around Rs. 18,000 crore.With a view to contain the deficit and to enable the Oil Companies to maintain uninterrupted supply of petroleum products in the country, the Government came out with a comprehensive package on September 1, 1997. Accordingly, in March, 1998, `10.5% Oil Companies (Non-Transferable) Special Government Bonds 2005` totaling to Rs.12,984 crore were issued by the Government to the oil companies. Fortunately, the international crude oil prices started falling after December 1997. As a result, the Oil Bonds could be serviced faster than envisaged, by keeping the selling prices of certain products at a level higher than the then prevailing import parity prices. Currently, an amount of Rs.385 crore along with an interest of around Rs.618 crore remain to be paid.

MOVEMENT OF OCC`S DEPOSITS IN THE PUBLIC ACCOUNT OF INDIA

Rs./CRORES

Year	Deposits into Public Account	Withdrawn from Public Account	Appropriation from Public Account to General Revenues of Govt. of India	Balance in Public Account
1988-89	1,270		8,900	
1989-90	500		8,400	
1990-91		2,300	6,100	
1991-92	972		5,128	
1992-93	699		4,429	
1993-94			4,429	
1994-95			4,429	
1995-96			4,429	
1996-97			4,429	
1997-98			4,429	
1998-99			4,429	
1999-2000			4,429	
2000-2001			4,429	

+ Nominal withdrawal allowed
++ Withdrawals allowed to enable OCC discharge its liabilities for royalty payments of crude oil

FACTORS AFFECTING THE OIL POOL ACCOUNT

There are various factors which affect the surplus/deficit of the pool account, such as:

a) Domestic prices of controlled petroleum products.
b) Fluctuation in the international prices of crude & petroleum products;
c) Foreign exchange variation in the Indian rupee ;
d) Materialization of the quantities of estimated demand ;
e) Excise duty on MS and HSD to the extent not passed in the price.
f) Freight, dealer/distributor commission not passed in the price.

CORRECTIVE MEASURES TAKEN TO CHECK THE OIL POOL DEFICIT

In March 2000, the ex-storage point prices of domestic LPG, PDS Kerosene and ATF were increased by Rs.30 per cylinder, Rs.2.50 per litre and Rs.2 per litre respectively.

With a view to partly offset the impact of higher international prices of crude and products, the Government in Sept`2000 increased the prices of diesel, petrol, kerosene for public distribution, domestic LPG and Aviation Turbine Fuel as follows:

High Speed Diesel (HSD)

The ex-storage point price of diesel was revised upwards on 30/9/2000 by Rs.2.30 per litre along with reduction in the duty of excise from 16% to 12%.

Motor Spirit (MS)

The ex-storage point price of MS was increased on 30/9/2000 by Rs.3.60 per litre along with reduction in duties of excise from 32% to 16%. MS cross subsidises PDS kerosene and domestic LPG.

Kerosene for Public Distribution

The ex-storage point price of kerosene for public distribution was revised upwards on 30/9/2000 by Rs.2.50 per litre. However, effective midnight of 21st/22nd November 2000, the ex-storage point price of SKO (PDS) has been reduced by Rs.0.89/litre, i.e. from Rs.7001.40/KL to Rs.6110.00/KL.

Domestic LPG

The ex-storage point price of domestic LPG was revised on 30/9/2000 by Rs.31.00 per cylinder. However, effective midnight of 21st/22nd November 2000, the ex-storage point price of domestic LPG has been reduced by Rs.8.55/cylinder, i.e. from Rs.13028.65/MT to Rs.12426.76/MT.

Aviation Turbine Fuel (ATF)

ATF was to be deregulated before 31st March 2001. To bring the domestic price to international level, the ex-storage point price of ATF (Domestic) was increased on 30/9/2000 by Rs.2.00 per litre.

After the revision in consumer prices, Government had received many representations from various quarters. Honourable Prime Minister had directed to have a re-look on the price corrections. The Government, after considering all aspects of the matter decided to reduce the retail selling price of PDS Kerosene, the domestic fuel of the poor, by around Re.1 per litre; and of domestic LPG, the fuel used for cooking in about 5.50 crore households by housewives, by around Rs.10 per cylinder. These reductions in the prices of PDS Kerosene and domestic LPG came into force from the midnight of 21st/22nd November 2000. At the ex-storage point level, these reductions were Rs.0.89 per litre for PDS Kerosene and Rs.8.55 per cylinder for domestic LPG. As a result of these reductions, the deficit that would be passed on to the consumers would stand revised to Rs.7400 crores.

The Government have also reduced duties of customs on crude oil from 15% to 10% and on petroleum products from a maximum level of 25% to 20%. Further, duties of excise have been reduced from 16% to 12% on HSD and from 32% to 16% on MS. The import/excise duty concessions amount to Rs.4000 crores. The balance deficit would be met by the Government by various instruments after observing the international oil market trends for some time.

As a result of the above measures, the oil pool deficit which was estimated to be Rs. 23,600 crores as on 31.03.2001 before the price revision, is now estimated to be around Rs. 12,600 crores as on 31.03.2001.

However, in the Union Budget 2001-02, the excise duty on HSD has been increased from 12% to 16% and on MS from 16% to 32%. Customs duty of 5% has also been imposed on PDS Kerosene. These increases are to be borne by the Oil Pool Account. The impact of absorption of Excise Duty differential is estimated to be Rs. 5,610 crores per annum.

NOTE ON SUBSIDIES

The pricing policy of controlled petroleum products ensures that products used by vulnerable sections of society, like Kerosene are subsidised, i.e. sold to the consumer at even below the cost of production. Similarly, to achieve inter-fuel substitution, namely to wean away Kerosene users to LPG and users of forest fuel to Kerosene, LPG for domestic use is also being subsidised.

The subsidy provided on petroleum products does not form part of the budgetary support and it is met by cross-subsidisation from other petroleum products. Fuels like Petrol provide cross-subsidy and are priced high in such a manner so as to promote their economic and efficient use.

SKO (PDS)

The Government had in November, 1997 further decided the details of phasing of dismantling programme of administered pricing mechanism and the duty structure for the terminal year i.e. 2001-02, after taking into account the recommendations of Expert Technical Group that was earlier constituted for this purpose. The details relating to elimination of subsidy on SKO (PDS) are furnished below:

Particulars
Model
Transition Phase
4 years

Year 1 (1998-1999)

Increase in prices of :

Kerosene (PDS)
30 per cent of existing ex-storage point price

Year 2 (1999-2000)

Increase in prices of :

Kerosene (PDS)
30 per cent of revised ex-storage point price at the end of year 1

Year 3 (2000-01)

Increase in prices of :

Kerosene (PDS)
20 per cent of the revised ex-storage point price at the beginning of the year

Year 4 (2001-02)
Increase in prices of

Kerosene (PDS)

Suitable adjustment in prices to reach subsidy level at 33.33% of import parity

2002 onwards

Kerosene (PDS)

Transfer of subsidy on SKO(PDS) to the fiscal budget of the Government.

No increase in the ex-storage point price of SKO (PDS) was made during 1998-99.

The ex-storage point price exclusive of excise duty, freight and local levies was increased by Rs.2.50/-per litre effective midnight of 22/23rd March`2000 as against the increase envisaged in the Gazette notification by Rs.2.06 per litre up to third year (i.e. by the year

2000-01) of dismantling programme of APM. The revised ex-storage point price of SKO (PDS) was Rs.4501.40 per KL effective midnight of 22/23rd March`2000.

The estimated subsidy on SKO (PDS) for the year 1999-2000 works out to Rs. 8151 crores or Rs. 6.05 per litre.

Effective midnight of 29th/30th September 2000, the ex-storage point price of SKO (PDS) was raised by Rs.2.50/litre i.e. from Rs.4501.40 per KL to Rs.7001.40 per KL. However, effective midnight of 21st/22nd November 2000, the ex-storage point price of SKO (PDS) has been reduced by Rs.0.89/litre, i.e. from Rs.7001.40/KL to Rs.6110.00/KL.

The estimated provisional subsidy on SKO (PDS) for the year 2000-2001 works out to Rs.7360 crores or Rs.5.55 per litre.

LPG(Packed Domestic)

LPG being an essential fuel for domestic consumption, taking into account the paying capacity of the customer and socio-economic considerations, Government is subsidising the use of domestic LPG.

The Government had initiated the phased programme for dismantling of Administered Pricing Mechanism (APM) from April, 1998 with a view to attract investment in the Petroleum Sector to meet the growing demand, and to promote competition, efficiency and better customer service. The phased programme envisages that subsidy on LPG for Domestic use sold by the PSU Oil marketing companies is to be reduced in phases through suitable adjustment in prices by the 2000-01 to 15% of import parity price which is to be transferred to the Fiscal Budget from 2002 onwards. As regards LPG for commercial use, the oil companies are free to fix the prices of same w.e.f. 1/4/98 based on market/commercial considerations.

In line with the Government decision, the details of phasing out of subsidies of LPG (Packed Domestic) are as under:

Phased Programme of Reforms

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Particulars
Model
Year 1   (1998-1999)


Increase in prices of  :


LPG (Domestic)
33 per cent of subsidy to be passed on.
Year 2   (1999-2000)


Increase in prices of  :


LPG (Domestic)
A further 33 per cent of subsidy to be passed on
Year 3   (2000-2001)


Increase in prices of  :


LPG (Domestic)
Suitable adjustment in prices to reach subsidy level at 15% of import parity.
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2002 onwards

Full Deregulation. Transfer of subsidy on SKO(PDS), LPG(Domestic) and freight subsidy on supplies to far-flung areas to the fisca budget of the Government.

Accordingly, the Government in February 1999 decided to reduce the subsidy by Rs.24 per cylinder. However, to reduce the burden on consumers, the Government reviewed the cylinder compensation scheme for the oil companies and decided to reduce the amount by Rs.10 per cylinder and this amount was adjusted against the proposed price increase. Accordingly, the consumer price of LPG (Domestic) at ex-storage point was increased by Rs.14 per cylinder only exclusive of duty, sales tax and other local levies effective midnight of 31st January/1st February 1999. The ex-storage point price (exclusive of duty etc.) increased from Rs.7958.29/MT to

Rs.8944.21/MT.

During the financial year 1999-2000, the ex-storage point price (exclusive of excise duty, freight, local levies etc.) was increased by Rs.30/-per cylinder effective midnight of 22/23rd March`2000. The ex-storage point price increased from Rs.8732.87 per MT to Rs.10845.55 per MT. Further, subsidy borne by pool accounts on account of distributor`s commission was also passed on in retail prices.

The estimated subsidy on LPG (Packed Domestic) for the year 1999-2000 was Rs. 4493 crores or Rs. 114.34 per cylinder.

Effective midnight of 29th/30th September 2000, the ex-storage point price of domestic LPG was raised by Rs.31/cylinder i.e. from Rs.10845.55/MT to 13028.65/MT. However, effective midnight of 21st/22nd November 2000, the ex-storage point price of domestic LPG has been reduced by Rs.8.55/cylinder, i.e. from Rs.13028.65/MT to Rs.12426.76/MT.

The estimated provisional subsidy on LPG (Packed Domestic) for the year 2000-2001 was Rs.6640 crores or Rs.141.93 per cylinder.